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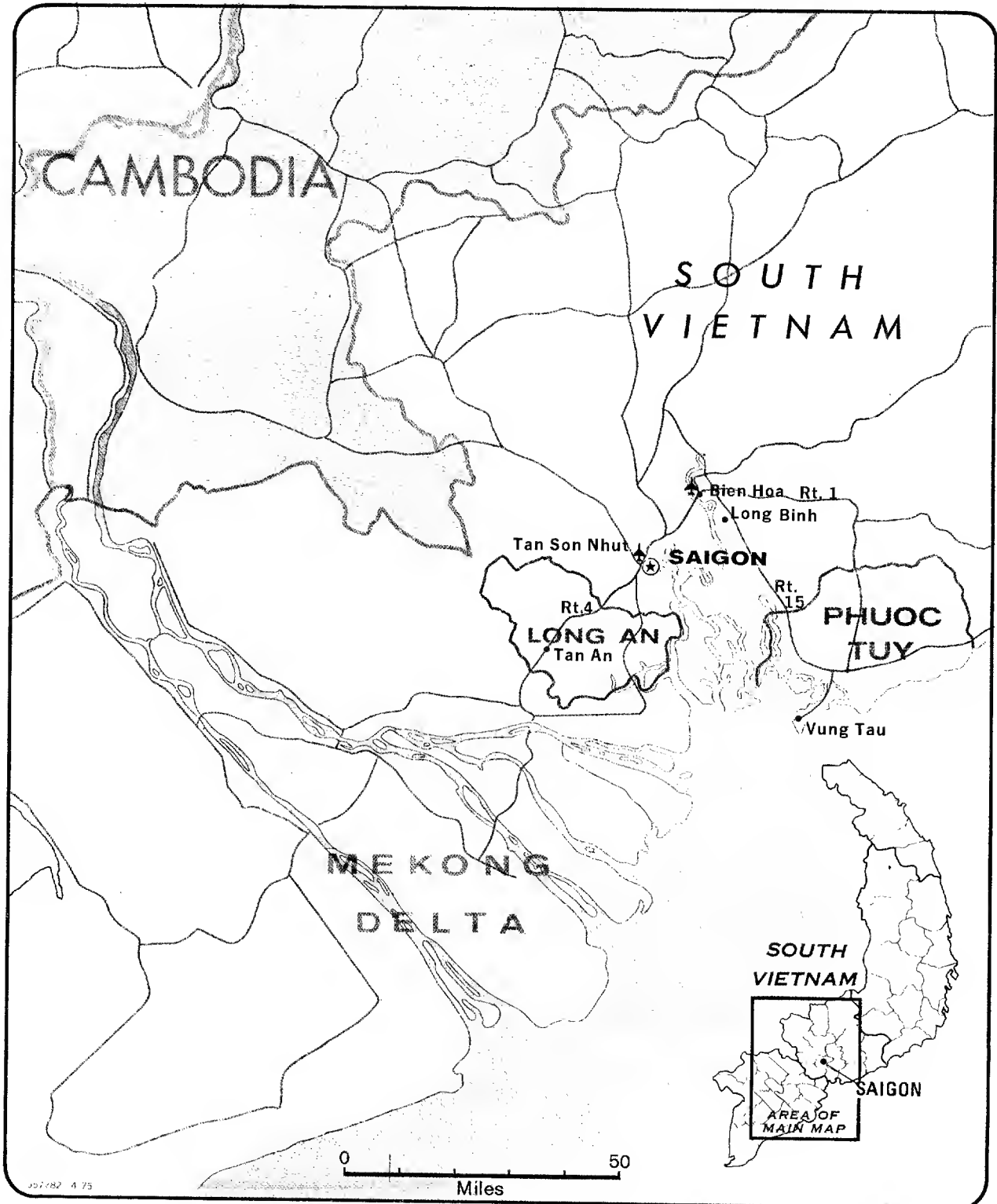
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SOUTH VIETNAM

Saigon's National Assembly voted unanimously Sunday morning to turn the government over to General Duong Van "Big" Minh. The final vote followed a sharp escalation of communist military pressure, including the first rocket attack against Saigon in almost three years. The rocketing of the city seemed to be a North Vietnamese signal to the assembly to take quick action.

The assembly on Saturday had passed a vaguely worded resolution that gave Huong the authority to step aside in favor of Minh, but it also gave him the option to stay on as head of state. Huong recalled the assembly on Sunday, however, and in effect told them to appoint Minh. While the vote was unanimous, nearly one third of the 160-odd assemblymen abstained.

Minh reportedly plans to announce his new government this morning; it can do little more than arrange a surrender under the guise of a "political solution." Initial communist reaction to his appointment so far has been a "no comment." A spokesman for the Viet Cong's Provisional Revolutionary Government in Saigon, when questioned by the press Sunday, said only that the communists insisted on three basic conditions: the removal of Thieu and his "clique"; the complete withdrawal of the US; and the "elimination of the war machine." This last demand, broadcast for the first time Saturday over the Viet Cong's Liberation Radio, appears intended to pressure Saigon to order its military establishment to "stack arms" and cease further resistance.

* * * *

The communists, meanwhile, are putting new pressure on Saigon's outer defenses, and the cities of Bien Hoa, Vung Tau, and Tan An may fall shortly.

The opening round of the new fighting began Saturday, when the North Vietnamese launched a series of strong attacks employing units from at least two divisions on Saigon's eastern front. These units cut Route 15 between Vung Tau and Saigon and then moved north and south toward the two cities.

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The action on Sunday began with a six-round rocket attack on Saigon. The North Vietnamese expanded their holdings southeast of the capital, overrunning the capital of Phuoc Tuy Province, and pressed closer to the city of Vung Tau. They also closed in on the government's logistic base at Long Binh, pushed along the Route 1 corridor to within sight of Bien Hoa, and moved infantry and armor into attack positions just north of the Bien Hoa air base.

Communist military activity has also increased southwest of Saigon along Route 4. A major communist attack yesterday cut the highway both north and south of Tan An, the capital of Long An Province, and forced the government defenders to retreat from a number of strongpoints.

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These weekend gains tighten the communist grip around Saigon. The port city of Vung Tau is cut off from Saigon and is under pressure. The major link between Saigon and the delta is probably permanently cut.

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The pressure on Bien Hoa has created some panic, and a number of government troops have been reported looting in Bien Hoa city. Communist activity along Route 1 on the outskirts of Saigon early this morning temporarily disrupted traffic between Saigon and Bien Hoa. The communists are planning to set up advance artillery positions from which they can direct more accurate fire on Saigon, Tan Son Nhut air base, Saigon's river access to the sea, and all remaining important government holdings in the Saigon area.

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PORTUGAL

Portuguese moderates, led by the Socialist Party, won a resounding victory over the Communists in the national constituent assembly election on Friday.

Unofficial results announced Saturday gave the three moderate parties more than 70 percent of the vote: the Socialists received 38 percent, the center-left Popular Democrats 26 percent, and the moderate right-wing Social Democratic Center 8 percent. The Communists and their allies took a total of 20 percent; 13 percent of which was won by the Communist Party.

Over 90 percent of the registered voters turned out, most exercising the right to vote for the first time. The Socialists' tally exceeded the party's highest expectations. They showed remarkable strength in all areas of the country. The Socialists almost matched the Communist vote in industrial towns and in the Alentejo region, where the Communists had worked hard to gain the support of peasants on the large estates of absentee landlords. The Socialists also polled better than expected in the traditionally conservative and heavily populated north, once a Popular Democratic stronghold.

The Socialists' impressive showing will increase their political influence, even though leaders of the ruling Armed Forces Movement say the election was nothing more than a "pedagogical exercise." The terms of the constitution to be approved by the constituent assembly are a foregone conclusion, but that body's deliberations could have an impact on the policies of the military government. The Socialists are assured of over one third of the seats. Altogether, the moderate parties may control as much as 80 percent of the assembly.

Did Anyone Win Anything?

The Socialists cannot exercise their status as the dominant civilian political force without the consent of the Armed Forces Movement.

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In a televised roundtable discussion with the leaders of the four parties in the governing coalition, Soares was conciliatory. He pledged that his party would comply with the pre-electoral pact--that turned power over to the Movement--signed by the six major parties.

Soares is wooing the Movement in an effort to split it away from the Communists. Up to now, the leaders of the Movement have found the highly disciplined Communists easy to work with; the party never criticizes the Movement's policies. They found the moderate parties were more difficult to handle because they insisted on playing a real role in government and questioned Movement decisions.

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Although press reports indicate that Soares may be interested in forming a common front with the Communists and the Popular Democrats, a Socialist Party official says the party will make no formal alliances. Soares intends, instead, to emphasize the Socialists' independence and popular strength, and to build the party's support.

Movement's Response

Movement leaders are pleased that the election was peaceful and that it boosted Portugal's international image. So far, they have played down the moderates' victory and stressed the political naivete of the Portuguese people.

On Saturday, Information Minister Jesuino and Revolutionary Council member Correia held a press conference. Jesuino remarked that the election really did not matter, it "was just an exercise for the elections for a legislative assembly in December."

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The Movement had been campaigning to encourage those uncertain of their political preference to vote a blank ballot, triggering speculation they would use such votes to indicate their own popular support. The percentage of blank or spoiled ballots amounted to a scant 7 percent. Jesuino said the Movement had hoped for 40 percent.

The spokesmen said the Movement did not regard the election as a defeat for their policies or as a protest against high unemployment and inflation. Jesuino, on the contrary, interpreted the vote as a victory for the Movement, because the Socialists and the other top vote-getters had previously agreed to the Movement's platform. According to Jesuino, "the first lesson to be drawn from the results of these elections is that the chosen line toward socialism has been reinforced" and thus there is no reason to modify the government's basic policies.

Factionalism

The election may hasten the growth of factionalism in the Revolutionary Council. [REDACTED]

[REDACTED] the division between moderate and radical factions that existed before the unsuccessful coup attempt on March 11 has become more complex.

The moderates lost their momentum after the unsuccessful coup attempt, but the return of Admiral Rosa Coutinho from Angola occurred in time to boost them and has prevented the radical faction, headed by Prime Minister Goncalves, from controlling the government. Coutinho favors the development of a specifically Portuguese brand of socialism and appears to stand between moderates like President Costa Gomes and pro-communist radicals like Goncalves.

How the Movement reacts to the moderates' victory will largely depend on which faction comes out on top. A moderate election victory was feared most by the radical officers. Prime Minister Goncalves may well suffer politically as the result of the vote; he made no secret of his support for the Communist-dominated Portuguese Democratic Movement. In an attempt to head off political difficulties, Goncalves and some radical officers are conjuring up the threat of new attacks from the right.

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President Costa Gomes is most likely pleased at the outcome, but he and the moderates still probably lack the power to turn the situation to their advantage. Coutinho, on the other hand, was one of the major proponents of the blank ballot, and is probably disappointed at the failure of the ploy. He may still try to capitalize on his strength among the military and try to form his "civilian Armed Forces Movement," ideologically situated between the Communists and the Socialists.

Coutinho dislikes Soares, but now might make peace with him to gain the support of the Socialists. Soares believes he can work with Coutinho and will probably seek his favor, at least for a while.

Impact on Communists

The Communist Party and the Portuguese Democratic Movement stand to lose the most as a result of the election. Both portray themselves as the representatives of the "people," but the "people" have disagreed. After spending more money than any other party and using their organization to get their supporters to the polls, the Communists can hardly complain that the people were not aware of their program. The party will probably not protest the election, but will most likely complain that the "anticommunists" and "antidemocratic forces" sabotaged their campaign.

Communist leader Alvaro Cunhal summed up his party's approach, stating, "We know that the strength of the Communist Party by far exceeds the electoral influence as shown by the election figures, and therefore we believe that the election results in no way harm the Communist Party." The Communists will encourage the Movement to belittle the election results, because their success in the near future depends on their continued ability to influence the leaders of the Movement.

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THAILAND-CAMBODIA

Bangkok is looking to diplomacy to avert a potential threat to its border from the new Cambodian government.



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The Thai are clearly nervous that their close association with the Lon Nol regime, in addition to their poor relations with Sihanouk during the 1960s, will prompt the new Cambodian government to take a hostile attitude toward Thailand. Bangkok

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is now fearful of Cambodian support for Thai insurgent bands operating near the Cambodian border.

These rebel groups have never presented a serious security problem to Thailand, but government officials in

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Bangkok are now concerned that an influx of Cambodian-provided arms and men could quickly heat up the situation. Bangkok is aware that even if it wanted to, it could not seal off its border with Cambodia.

While the Cambodians are not likely to mount a subversive effort against Thailand anytime soon, Bangkok's concern over such an eventuality will dominate the direction of Thai policy toward Phnom Penh.

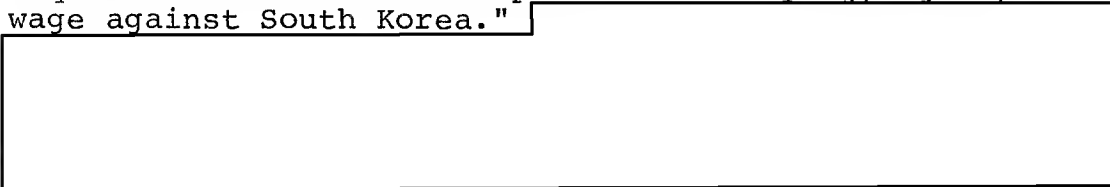


SOUTH KOREA

President Pak Chong-hui is taking the line that North Korean President Kim Il-song's recent visit to Peking indicates tacit Chinese support for North Korean military adventures against the South.



Pak's views were subsequently provided to the Seoul press in backgrounders that stressed the point that the objective of Kim's visit to Peking was to secure China's acquiescence in "whatever provocations Pyongyang may wage against South Korea."



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CYPRUS

Greek and Turkish Cypriots will resume negotiations in Vienna today under the auspices of UN Secretary General Waldheim. Indications are that both sides may be more flexible than in previous rounds, but mutual suspicions and differences in approach could lead to more snags.

Greek Cypriot negotiator Clerides and Turkish Cypriot negotiator Denktash will try to reconcile their respective position papers, which they had submitted just prior to the suspension of the talks in mid-February. The documents, which reflect the maximum demands of the two sides, have few points in common and agreement will be difficult.

The Greek Cypriot proposals call for the establishment of a multiregional federation with a strong central government. The more vaguely worded Turkish Cypriot proposals call for a biregional federation with a weak central government.

Greek Prime Minister Karamanlis and Clerides, however, seem prepared to accept a biregional solution, provided the Turks are willing to make substantial concessions on other matters. They also appear to have persuaded President Makarios to at least consider such a solution..

So far, the new government in Ankara--with some prodding by the US--appears willing to consider a limited withdrawal from the territory it controls on Cyprus. Ankara has been reluctant, however, to provide specific details and has emphasized that no such concessions will be made except in the course of negotiations.

An impasse could arise soon after the talks resume if Denktash insists that Clerides accept the principle of a bizonal federation as a precondition to further discussions. It is almost certain that the Greek side would not commit itself in advance to a bizonal federation unless the Turkish side is willing to give some idea of the amount of territory it is prepared to give up and the number of refugees that would be permitted to return to their homes.

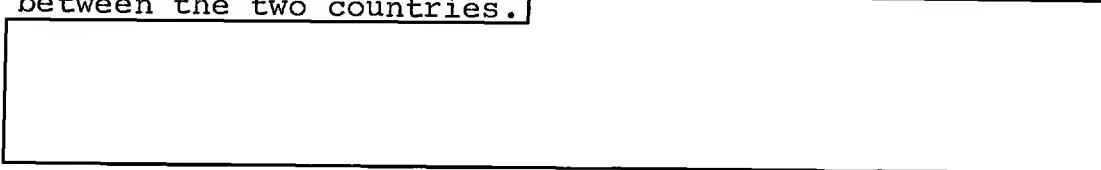
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Such an impasse might be avoided if the Greek side can be persuaded to give tacit acceptance to the idea of biregionalism in return for concrete concessions by the Turkish side on other issues. Even without a snag over this issue, however, the negotiations are expected to be long and arduous.

The Vienna sessions will last a week, after which the talks will likely be transferred to Nicosia, where the UN will be represented by its special envoy to Cyprus.

Should Denktash, as he has threatened, withdraw as the negotiator for the Turkish Cypriots in favor of someone of lesser stature, Makarios may respond by appointing someone to replace Clerides as the negotiator for the Greek Cypriots. Ultimately, the details of a final settlement are likely to be determined in direct negotiations between Athens and Ankara, possibly as part of a more general settlement of outstanding differences between the two countries.



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EC

The EC and Madrid are showing increased interest in resolving differences that would enable both to proceed with negotiations on a new association agreement--perhaps by early summer.

The EC countries, with an eye on Lisbon, would like to strengthen economic ties with Spain in preparation for the post-Franco era. For its part, Madrid regards an agreement with the EC as a step toward Spain's goal of establishing stronger security and political ties with Western Europe.

The negotiations concern a new agreement to supersede one Spain negotiated in 1970 before Britain entered the EC. Under the EC offer, Britain would gradually raise its tariffs on imports of Spanish products to EC levels. At the same time, the EC would gradually reduce its tariffs on Spanish products. Consequently, Spanish negotiators have felt that Spain's benefit would be limited.

Britain's indecision about staying in the EC has added uncertainty concerning the consequences of the new agreement for Spain. Madrid probably hopes that the question may be clarified when the UK referendum on EC membership is held on June 5.

Spain has disliked being included, as one of a group including the Maghreb, Malta, and Israel, in EC policy toward the Mediterranean. It has preferred to conceive its association agreement with the EC as a step toward eventual full membership. The current impasse between the EC and the Maghreb over terms of association may encourage Madrid to try to get its own talks under way.

Economically, the chief stumbling block in earlier talks was the EC's demand that Spain dismantle almost all of its barriers to imports of EC industrial goods by 1980, in return for EC concessions on Spanish agriculture. Madrid argued for 1984. A compromise now under consideration would allow postponement of full Spanish concessions until 1982 or 1983.

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Madrid's readiness for negotiations with the EC coincides with its newly expressed interest in establishing ties with NATO. During a recent negotiating session over renewal of US base rights, the Spaniards told the US that if Washington could not agree to a bilateral security guarantee, Madrid would opt for a relationship with NATO that recognized Spain's contribution to Western defenses. Foreign Minister Cortina plans to raise the issue with NATO ambassadors in Madrid next week.

Spain is aware that membership in NATO is out of the question and that even an informal relationship will be hard to attain. Most NATO members--particularly Britain and the Benelux and Scandinavian states--remain opposed to forging any explicit links with Spain while Franco remains in power.

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IRAN - ARAB STATES

Egyptian President Sadat followed his mini-summit in Saudi Arabia with a stop in Tehran last Wednesday for talks with the Shah.

The Shah told reporters afterward that the primary topic was the Arab-Israeli dispute. He reiterated Iran's standard demand for Israel's withdrawal from occupied Arab lands, and he stressed Iranian-Egyptian agreement on major regional issues. Sadat probably reviewed the results of his talks in Riyadh with the Shah and may have sought to further strengthen Egypt's economic ties with Iran.

The Shah begins his own visit to Saudi Arabia today, seeking to cement relations with the new Saudi leadership, emphasize OPEC solidarity, and discuss regional issues.

Closer cooperation on regional security is one such issue. Iranian attempts to organize security in the Persian Gulf have floundered in the past because of the late King Faysal's resentment of Iranian attempts at hegemony in the Gulf and because of Arab-Iranian cultural and religious differences. The Shah believes that Crown Prince Fahd--the power in the new Saudi government--is more modern and pragmatic in his approach to regional matters than was Faysal and that he will cooperate more closely with Iran.

Another obstacle to closer security cooperation among the Persian Gulf states has apparently been removed by the Iranian-Iraqi accord signed in Algiers on March 6. It opens the way for inclusion of Baghdad in any pact. In any case, it now would be difficult for the Shah to exclude Iraq, as had been the case in earlier Iranian proposals.

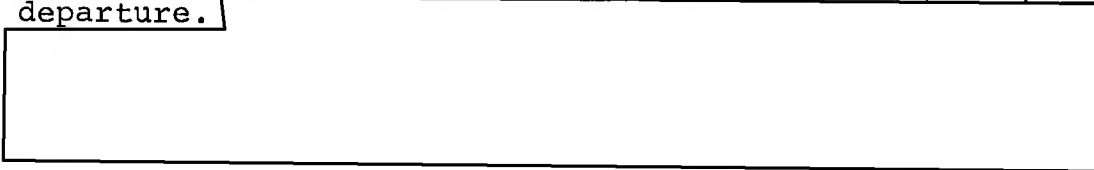
Iraqi strongman Saddam Husayn probably intends to explore the Shah's thinking on this subject during his four-day visit to Tehran, beginning Tuesday. Saddam Husayn will be the first Iraqi leader to visit Iran since the present Baathist regime came to power in 1968.

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Saddam has referred to the possibility of a collective security arrangement in the Persian Gulf in several press interviews given since the Algiers accord was signed, most recently on April 26.

Saddam pressed for an invitation to Tehran, and he may have been motivated in part by domestic political considerations. Some members of his Baath Party have criticized Iraq's concessions on the river boundary issue in the Algiers accord. The Iraqi leader probably hopes to silence these critics by demonstrating that Iran is no longer threatening Iraq, thanks to his bold policy departure.



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CHINA

Peking has for the first time extended a formal invitation to a US manufacturing group to visit China. Officials of the Electronic Industries Association will depart for Peking in late July with a delegation representing ten of the top US manufacturers of electronics and telecommunications equipment.

Until now, Chinese dealings with US manufacturers had been limited to individual firms. The decision to invite the manufacturing group probably stems from:

- a pressing need to satisfy domestic requirements in a high technology area by increasing imports;
- an attempt to use the delegation's influence to force a change in existing Coordinating Committee embargo restrictions and to lobby China's case for most-favored-nation treatment;
- a desire to sound out the US market potential for Chinese-manufactured electronics components.

China needs large quantities of modern electronics and telecommunications equipment to operate its newly constructed high-capacity telecommunications trunkline network. China currently lacks the technology and capability to produce modern telephone switching, data transmission, and ancillary telecommunications equipment needed for the new system. The US is the world leader in producing such equipment and has already supplied considerable quantities since 1972.

Peking has been extremely vocal in its opposition to the Coordinating Committee embargo list and to the technical constraints placed on exports by non-communist states to China. Exports of electronics and telecommunications equipment are the most heavily affected by current embargo restrictions. China may attempt to lobby the US delegation for liberalized export restrictions, as well as for most-favored-nation treatment--a subject that has been broached repeatedly during previous meetings with US manufacturers.

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Recent information indicates that China may be prepared to open negotiations with major US electronics and telecommunications firms to supply them with less sophisticated electronics components. The US electronics industry relies heavily on overseas suppliers--particularly in Southeast Asia--for such devices. China's low labor costs would enable it to compete in the labor intensive component industry.

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FOR THE RECORD

Cambodia: Prince Sihanouk's mother, Queen Kossamak, died in Peking yesterday. Her death could clear the way for the Prince's early return to Phnom Penh, although there has yet been no formal announcement of any specific travel plans. Sihanouk had previously said he was delaying his departure from Peking to be at her bedside. The Khmer communists, however, probably prefer to have Sihanouk cool his heels a while longer, both to prevent him from sharing in their victory celebrations and to allow time for the communist administrative apparatus to establish firm control.

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ANNEX

Lao Coalition Not Seen Jeopardized by Recent Fighting

The new aggressiveness of Pathet Lao combat forces has raised questions about communist support for the latest coalition experiment in Laos. There is growing speculation among senior non-communist military leaders and the diplomatic and press corps in Vientiane that the Pathet Lao, emboldened by communist battlefield successes in Cambodia and South Vietnam, are adopting a more militant posture.

There is no persuasive evidence at this point, however, that the Lao communists or their North Vietnamese backers are planning to scuttle the year-old coalition government in favor of a military solution.

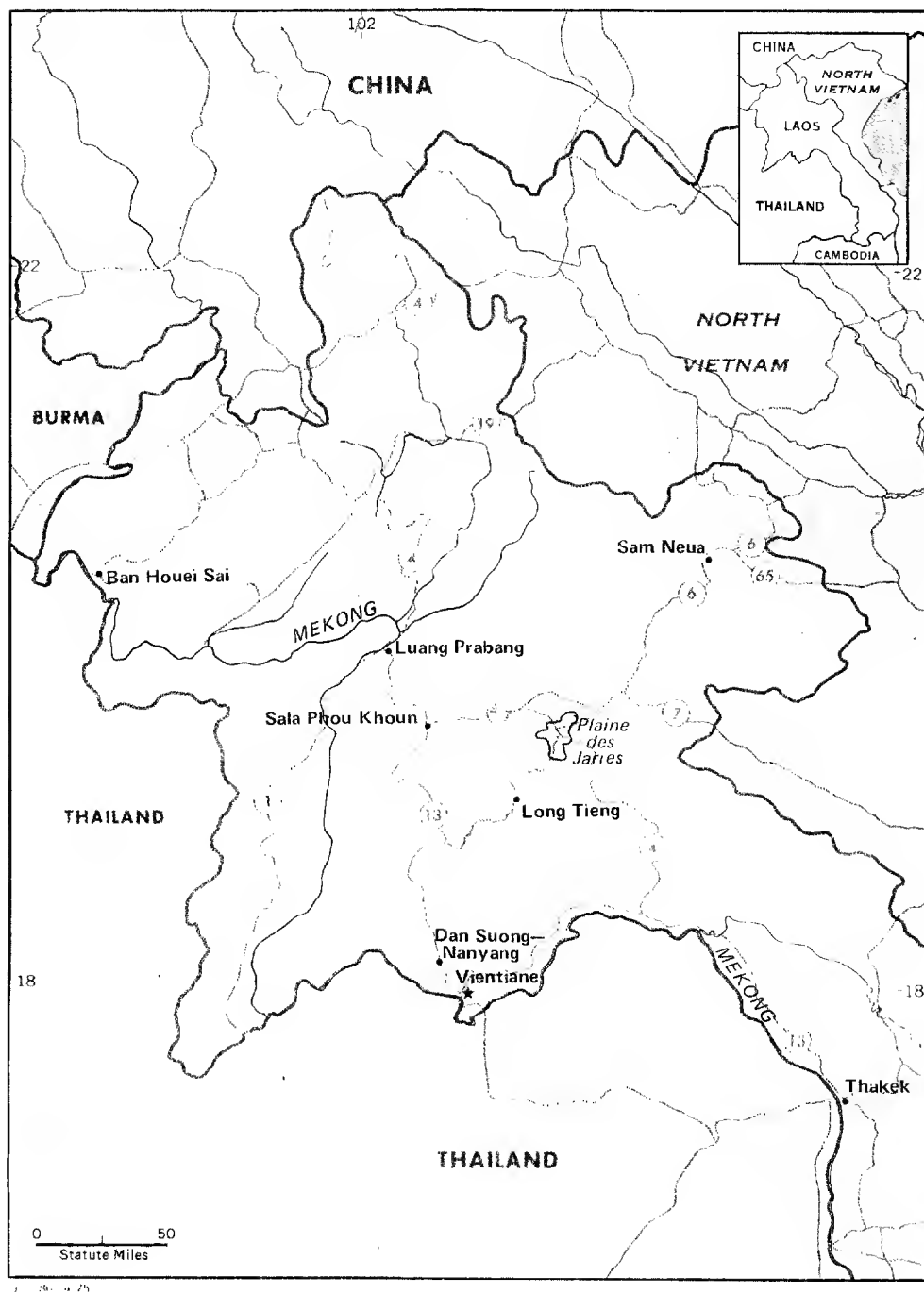
Sala Phou Khoun

Pathet Lao actions have been limited and localized, largely concentrated in northern Laos. The most significant fighting has taken place in and around the strategic crossroads of Sala Phou Khoun, which lies astride the only overland route between the twin capitals of Vientiane and Luang Prabang. The scene of numerous battles during the Lao war, Sala Phou Khoun was controlled by the non-communists when the cease-fire went into effect in February 1973.

Pathet Lao forces--reportedly supported by artillery and tanks--have been attacking and overrunning non-communist positions guarding the eastern approaches to Sala Phou Khoun, as well as those defending the road junction itself, since April 14. Despite several counterattacks and numerous T-28 air strikes by Vang Pao's forces, the Pathet Lao apparently continue to occupy most of the positions they have captured.

Both sides are predictably blaming the other for the flare-up in fighting at Sala Phou Khoun, and neither the

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communists nor the non-communists have yet responded to orders from Prime Minister Souvanna Phouma and the coalition cabinet to withdraw to their original positions.

It is difficult to account for the Pathet Lao's cease-fire violations at Sala Phou Khoun.

Boundary lines in many areas are ill-defined, and isolated small-scale skirmishing has occurred sporadically since the cease-fire as both sides test the resolve of the other at targets of opportunity. The communist move against Sala Phou Khoun may be one of these tests. It may also represent a continuation of the kind of salami tactics introduced earlier this year at Ban Houei Sai, Thakhek, and other areas in the non-communist zone. The Pathet Lao objective is to have the target area "neutralized" along the lines of Vientiane and Luang Prabang, enabling the communists to establish a legal presence.

Stress on Politics

While the Pathet Lao will almost certainly continue to nibble away at non-communist holdings in remote or contested areas when the opportunity arises, there are no present indications that they are preparing for a major resumption of hostilities.

Recent public statements by Prince Souphanouvong and other senior Pathet Lao leaders in both Vientiane and Sam

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Neua suggest, in fact, that the Lao communists are reasonably satisfied with the coalition government's evolution over the past year or so and that, by and large, they remain committed to pursuing their interests in the political arena, rather than on the battlefield. Indeed, the Pathet Lao have invited King Savang to spend the next week in Sam Neua, and it would appear to make little sense for them to take this unprecedented step if they were on the verge of scrapping the cease-fire entirely.

The Pathet Lao have every reason to be content with the present state of affairs. They have maintained a firm hold on the political initiative since the coalition was formed, and virtually all of their major policy proposals--including dissolution of the rightist-dominated National Assembly--have been adopted.

Moreover, in Prime Minister Souvanna Phouma, the communists have a coalition leader who, for a variety of reasons, has leaned toward their views on most of the important issues confronting the new government. Sizing up the realities of the situation in Laos and elsewhere in Indochina, Souvanna concluded early in the game that communist political demands would have to be largely accommodated in order to keep the fragile coalition on track.

External Influences

Although it is still true that Sam Neua marches to Hanoi's drum, there is little reason to believe that the North Vietnamese are presently counseling their Pathet Lao clients to move in the direction of a military takeover in Laos.

Hanoi has demonstrated its satisfaction with the effectiveness of the Lao cease-fire by withdrawing some 58,000 troops from the country over the past two years. At a time when Hanoi's energies and resources are likely to be focused on consolidating its victories in South Vietnam, the North Vietnamese would appear to have all the more reason to maintain their support for the coalition government.

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Approximately 22,000 North Vietnamese troops--10,000 combat and 12,000 logistic personnel--still remain in Laos, however, and more could be introduced quickly if Hanoi eventually decided to support renewed warfare by the Pathet Lao.

The Chinese also have steadfastly supported Prime Minister Souvanna's coalition, and, like the North Vietnamese, have substantially reduced their own force levels in Laos.

Peking, clearly suspicious of Hanoi's intentions to extend its hegemony over all of Indochina, would almost certainly counsel the Pathet Lao not to renew offensive action in Laos.

Moscow, for its part, has also voiced strong support for the Lao political settlement.

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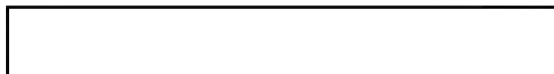
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